Economic and Financial Monthly (MAR, 2020)

Summary

The U.S. economy has seen substantial downside risks due to the rapid outbreak of COVID-19 as confirmed cases continued to surge in March. In order to rescue the U.S economy in free fall, unprecedent measures were implemented to avoid a deep recession. PMI in the Eurozone showed that the economy has been particularly hit hard by the spread of COVID-19, which required a stronger fiscal stimulus to cushion the economic hardship. China's economic activities in January-February slumped, but major economic activities are expected to reach the bottom with an expected recovery from Q2 2020. Finally, Hong Kong is facing higher risks for worsening unemployment.

■ Unprecedent measures to prevent a deep recession in the U.S.

The U.S. economy has seen substantial downside risks due to the rapid outbreak of COVID-19 as confirmed cases continued to surge in March. In order to rescue the U.S economy in free fall, unprecedent measures were implemented including a $2 trillion fiscal packages as well as the Fed's emergency rates cut to zero and unlimited amount in asset purchases to provide liquidity in the financial markets. The March labor market report began to shed light on the virus's economic toll, of which 701k of jobs were lost with unemployment rate rising to 4.4%. Initial jobless claims also jumped to record levels with a total of 10 million in the last two weeks of March. The development of COVID-19 in the U.S. will be a crucial factor in determining whether a quick recovery can be seen in the second half of 2020.

PMI revealed a severe economic damage to the Eurozone economy

The eurozone economy has been particularly hit hard by the spread of COVID-19. The services PMI in March plunged to a record low of 28.4 from 52.6 in February, which was much weaker than the consensus. The manufacturing PMI also fell to 44.8 from 49.2 in February. Since services output accounted for nearly three quarters of the eurozone economy, the services PMI pointed to a severe economic damage. Given the worsening economic outlook, the ECB unveiled plans to buy an extra €750bn of bonds to safeguard the economy. Meanwhile, governments across the Eurozone started to step up fiscal stimulus plans, providing impetus for the economy.

China's economic activities in January-February slumped but expected to have reached the bottom

In the first two months of the year, economic activities in China contracted at record paces with industrial production, retail sales and fixed asset investments all declining by 13.5% yoy, 20.5% yoy and 24.5% respectively. On foreign trade, exports were by down by 17.2% in USD terms while import dropped by 4.0%. These figures showed that COVID-19 brought a temporary substantial blow to the China economy, since both production and consumption activities were kept at minimum level to curb the spread of the virus. That said, the outbreak started to ease in March with work resumption rates returning to the normal level. The China economy is expected to have reached the bottom in Q1 2020 and rebound from the Q2 2020.

Unemployment rate in Hong Kong is likely to surge further

While the spread of COVID-19 in Hong Kong is relatively contained compared to other Asian cities, the Hong Kong economy is facing an extremely challenging outlook. In the first two months of the year, retail sales and total trade dropped by 33.9% yoy and 10.6% yoy, reflecting weakness in both external and domestic demand. Unemployment rates from Dec-19 to Feb-20 also increased from 3.4% to 3.7%. Tourism, retail, catering and construction industries were hit particularly hard in current economic downturn. Furthermore, the COVID-19 has been on the rise across the globe, resulting with a new round of anti-pandemic measures such as compulsory quarantine and travel alerts. Hence, daily tourist arrivals declined further from an average of 3,000 persons per day in the end of February to around 300 persons per day in the end of March. As a quick recovery is not anticipated, the unemployment rate in Hong Kong in likely to surge further.

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